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FOR
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW COMMITTEE

Committee Meeting: 11/4/2004
Austin, Texas
Board Meeting: 11/5/2004
Austin, Texas

Robert A. Estrada, Chairman
Rita C. Clements
Judith L. Craven, M.D.
Woody L. Hunt
Cyndi Taylor Krier

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A. Convene	*4:30 p.m.* *Chairman Estrada*		
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2. **U. T. System: Amendment of the Audit, Compliance, and Management Review Committee Responsibilities Checklist**	*4:32 p.m.* **Action** *Regent Estrada*	**Action**	**9**
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4. **U. T. Board of Regents: Approval of proposed appointment of a member to the Audit and Ethics Committee of The University of Texas Investment Management Company (UTIMCO)**	*4:40 p.m.* **Action** *Mr. Hunt*	**Action** *Mr. Hunt*	**11**
5. **U. T. Board of Regents: Report on the results of The University of Texas Investment Management Company (UTIMCO) Audit**	*4:45 p.m.* **Report** Mr. *Ricky Richter, Ernst & Young*	Not on Agenda	**11**
6. **U. T. System: Report on the status of the Sarbanes-Oxley Initiative, including the hiring of the independent audit firm for the 2005 U. T. System Financial Statements Audit, and the Governor's Fraud Initiative**	*4:55 p.m.* **Report** *Mr. Chaffin; Mr. Wallace; Dr. Kelley; Mr. Rodney Lenfant, Ms. Julia Petty, and Ms. Michele Strain from Deloitte*	Not on Agenda	**12**

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8. **U. T. System: Report on System-wide Internal Audit Activities**	*5:10 p.m.* **Report** *Mr. Chaffin* *Ms. Hagara*	Not on Agenda	**13**
9. **U. T. System: Annual Report on System-wide Institutional Compliance Program**	*5:15 p.m.* **Report** *Mr. Chaffin* *Ms. Hagara*	Not on Agenda	**15**
B. RECESS TO EXECUTIVE SESSION	*5:20 p.m.*	Not on Agenda	
1. U. T. Board of Regents: Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees - Texas Government Code Section 551.074			
U. T. System: Evaluation and duties of System and institutional employees involved in audit and compliance functions	*Mr. Chaffin*		
2. U. T. Board of Regents: Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers - Texas Government Code Section 551.071	*Mr. Collins*		
C. RECONVENE IN OPEN SESSION			
Adjourn	*5:30 p.m.*		

1. U. T. System: Approval of U. T. System Internal Audit Plan for Fiscal Year 2005

RECOMMENDATION

The Audit, Compliance, and Management Review Committee recommends that the U. T. Board of Regents approve the proposed U. T. System-wide Internal Audit Plan for Fiscal Year 2005. A summary of the auditable areas is set forth on Pages 8.1 – 8.2. Development of the Internal Audit Plan is based on risk assessments performed at each institution. Implementation of the Plan will be coordinated with the institutional auditors.

BACKGROUND INFORMATION

Institutional Audit Plans, compiled by the internal audit departments after input and guidance from the System Audit Office and the institution's management and Internal Audit Committee, were submitted to all Internal Audit Committees and institutional presidents for review and comments.

The Chief Audit Executive provided feedback by conducting audit hearings with each institution. After the review process, each Internal Audit Committee formally approved its institution's Plan.

The Audit, Compliance, and Management Review Committee approved the Audit Plan on September 28, 2004.

Fiscal Year 2005 System-wide Audit Plan

Summary

The University of Texas System-wide Fiscal Year 2005 Internal Audit Plan (2005 Audit Plan) is a blueprint of the internal audit activities that will be performed by the internal audit function throughout The University of Texas System in FY 2005. Individual audit plans were prepared at each institution and approved by the institutional Internal Audit Committee.

The Director of Audits provided direction to the internal audit directors prior to the preparation of the audit plans and provided formal feedback through conducting "audit hearings" with each institution. The process of preparing the audit plans is risk based and ensures that activities with the greatest risk are audited.

The efforts of the internal audit function continue to expand into areas other than the performance of traditional audits. Examples of added services include: providing continued assistance in the System-wide Compliance Initiative, assisting in the Information Technology (IT) Vulnerability Initiative, providing information to the Board of Regents to assist them in their decision to voluntarily implement the "spirit" of the Sarbanes-Oxley Act of 2002, and performing consulting projects and special investigations at the request of management.

The 2005 Audit Plan illustrates an economic and efficient use of internal audit resources, and addresses the risks of The University of Texas System by planning activities as follows:

Area	Audit Hours	% of Total Hours
Key Financial and Operating Information	30,205	24%
Institutional Compliance Audits	11,616	9%
Information Technology Audits	23,604	18%
Core Business Processes	29,180	23%
Change in Management	5,850	5%
Follow-up	4,550	3%
Projects	22,661	18%
Total	127,666	100%

Prepared by: U. T. System Internal Audit Program
Consolidated by: U. T. System Audit Office
Date: September 2004

	Key Financial & Operating Information	Institutional Compliance	Information Technology	Core Business Processes	Change in Management	Follow-up	Projects	Total
U. T. System Administration	2,960	700	3,897	4,280	650	200	3,779	16,466
Large Institutions:								
U. T. Austin	4,090	2,450	3,150	1,550	1,080	400	4,500	17,220
U. T. Southwestern	3,050	1,000	2,700	4,050	650	400	2,150	14,000
U. T. Medical Branch at Galveston	3,360	1,075	3,000	3,700	700	750	2,076	14,661
U. T. HSC - Houston	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
U. T. HSC - San Antonio	1,960	720	980	1,250	300	450	1,280	6,940
U. T. MDA Cancer Center	2,330	1,190	3,437	6,980	240	400	1,750	16,327
subtotal	14,790	6,435	13,267	17,530	2,970	2,400	11,756	69,148
Mid-size Institutions:								
U. T. Arlington	1,920	600	600	1,160	200	300	266	5,046
U. T. Brownsville	1,350	200	550	550	400	250	624	3,924
U. T. Dallas	1,155	1,260	770	1,015	200	170	628	5,198
U. T. El Paso	2,470	550	950	1,250	820	530	1,350	7,920
U. T. Pan American	1,350	315	600	1,430	210	400	820	5,125
U. T. San Antonio	1,500	600	1,400	850	-	260	2,050	6,660
subtotal	9,745	3,525	4,870	6,255	1,830	1,910	5,738	33,873
Small Institutions:								
U. T. Permian Basin	500	170	130	270	160	40	100	1,370
U. T. Tyler	600	536	690	240	60	-	464	2,590
U. T. HC at Tyler	1,610	250	750	605	180	-	824	4,219
subtotal	2,710	956	1,570	1,115	400	40	1,388	8,179
TOTAL	**30,205**	**11,616**	**23,604**	**29,180**	**5,850**	**4,550**	**22,661**	**127,666**
Percentage of Total	**24%**	**9%**	**18%**	**23%**	**5%**	**3%**	**18%**	**100%**

N/A: The department has experienced 100% turnover and a new director and staff are expected to be in place in October. An audit plan will be developed upon the restaffing of the audit function.

Prepared by: U. T. System Internal Audit Program
Consolidated by: U. T. System Audit Office
Date: September 2004

2. U. T. System: Amendment of the Audit, Compliance, and Management Review Committee Responsibilities Checklist

RECOMMENDATION

The Chancellor and the Chief Audit Executive and System-wide Compliance Officer recommend that Item 17 of the Audit, Compliance, and Management Review Committee Responsibilities Checklist be amended as set forth in congressional style on Page 9.2. The complete Checklist is attached on Pages 9.1 – 9.3.

BACKGROUND INFORMATION

The proposed amendment to the Audit, Compliance, and Management Review Committee Responsibilities Checklist is a recommendation of the U. T. System Sarbanes-Oxley Ad Hoc Committee and the Action Plan to Implement the "Spirit" of Sarbanes-Oxley Act of 2002 approved by the Committee on November 12, 2003.

The amendment provides guidance on the disclosure and inclusion of off-balance sheet items in the financial statements.

The Audit, Compliance, and Management Review Committee Charter specifies that the Committee's responsibilities in carrying out its oversight role will be delineated in the Checklist. The Checklist is updated annually to reflect changes in regulatory requirements, authoritative guidance, and evolving oversight practices.

Responsibilities Checklist
for the
Audit, Compliance, and Management Review Committee
of the
Board of Regents of The University of Texas System

1. The Committee will perform such other functions as assigned by law or the Board of Regents of The University of Texas System ("the Board").

2. The Committee shall meet four times per year or more frequently as circumstances require. The Committee may ask members of management or others to attend the meeting and provide pertinent information as necessary.

3. The agenda for Committee meetings will be prepared in consultation between the Committee chairman (with input from the Committee members), U. T. System executive management, the Chief Audit Executive, and the System-wide Compliance Officer.

4. The Committee shall verify that its membership is familiar with the Committee's Charter, goals, and objectives.

5. The Committee shall review the independence of each Committee member based on applicable independence laws and regulations.

6. The Committee shall review and approve the appointment or change in the Chief Audit Executive.

7. The Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities.

8. The Committee shall provide an open avenue of communication between the State Auditor, internal auditors, any public accounting firm employed, executive management, and the Board. The Committee chairperson shall report Committee actions to the Board with such recommendations as the Committee may deem appropriate.

9. For the purpose of preparing or issuing an audit report or related work, the Committee shall be directly responsible for the appointment, compensation, and oversight of the work of any employed public accounting firm (including the resolution of disagreements between management and the auditor regarding financial reporting). This does not preclude an individual component institution from hiring a public accounting firm to perform work at the component level.

10. The Chief Audit Executive has responsibility for ensuring that no conflicts of interest exist between public accounting firms performing consulting services and firms conducting financial statement audits. The Chief Audit Executive shall report annually on the status and integrity of U. T. System's engagements with public accounting firms.

11. The Committee shall review with executive management, the Chief Audit Executive, the System-wide Compliance Officer, the State Auditor, and any employed public accounting firm the coordination of efforts to assure completeness of coverage, reduction of redundant efforts, and the effective use of resources.

12. The Committee shall inquire of executive management, the Chief Audit Executive, the System-wide Compliance Officer, and any employed public accounting firm about significant risks or exposures and assess the steps management has taken to minimize such risk to U. T. System.

13. The Committee shall consider and review with the Chief Audit Executive, the System-wide Compliance Officer, the State Auditor, and any employed public accounting firm:

    a. The adequacy of U. T. System's internal controls including computerized information system controls and security;
    b. The adequacy and efficiency of senior-level management with respect to fiscal operations and compliance functions at all component institutions;
    c. Any related significant findings and recommendations of the State Auditor, independent public accountants, and internal audit together with management's responses thereto.

14. Regarding the U.T. System's financial statements, the Committee shall review with executive management and/or the Chief Audit Executive:

    a. U. T. System's annual financial statements and related footnotes;
    b. Any audit and assurance work performed on components of the annual financial statements;
    c. Any significant changes to the financial statements requested by the State Auditor, internal audit, or any independent public accountants;
    d. Any serious difficulties or disputes with management encountered during assurance work on components of the financial statements;
    e. Other matters related to the conduct of assurance services that are to be communicated to the Committee under generally accepted government auditing standards.

15. The Committee shall require the U. T. System Chief Financial Officer certify the annual financial statements for the U. T. System as a whole, and that each component Chief Financial Officer certify the annual financial statements for their respective component institution.

16. The Committee shall review legal and regulatory matters that may have a material impact on the financial statements, internal auditing and/or compliance activities.

17. The Committee shall at least annually

    a. review with executive management and the Chief Audit Executive ~~at least annually~~ the U. T. System's critical accounting policies, including any significant changes to Generally Accepted Accounting Procedures (GAAP), Regents' Rules and Regulations, and/or operating policies or standards;

    b. engage executive management and the external audit firm in the discussion of off-balance sheet transactions/arrangements that have, or are reasonably likely to have, a current or future effect on the System's or any of the institution's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to users of the financial statements. The discussion should include the extent of the off-balance sheet transactions/arrangements and whether GAAP or other regulations results in the financial statements reflecting the economics of such transactions/arrangements.

18. On an annual basis, the Committee shall review, recommend, and approve the annual audit plan, including the allocation of audit hours.

19. Regarding audits, the Committee shall consider and review with executive management and the Chief Audit Executive:

    a. Significant findings during the year and management's responses thereto;
    b. Any difficulties encountered in the course of the audits, including any restrictions on the scope of work or access to required information;
    c. Any changes required in the planned scope of the audit plan.

20. The Committee shall conduct an annual performance review and evaluation of the Chief Audit Executive. The Committee may delegate responsibility for the performance review to the Chancellor, in which case the Chancellor would provide a recommendation and supporting documentation to the Committee as a basis for their evaluation.

21. The Committee shall ensure procedures are established for the receipt, retention, and treatment of complaints received regarding internal controls or auditing matters; and the confidential anonymous submission by employees of concerns regarding questionable auditing matters.

22. The Committee shall monitor The University of Texas System Institutional Compliance Program and review with executive management and the System-wide Compliance Officer the status of the program and the results of its activities, including:

    a. Significant institutional risks identified during the year and mitigating actions taken;
    b. Significant findings during the year and management's responses thereto;
    c. Any difficulties encountered in the course of inspections or assurance activities, including any restrictions on the scope of work or access to required information;
    d. Any changes required in planned scope of the compliance action plan.

23. The Committee shall ensure procedures are established for the receipt, retention, and treatment of complaints received regarding compliance issues and the confidential anonymous submission by employees of concerns regarding ethically or legally questionable matters.

24. The Committee shall meet with the Chief Audit Executive, the System-wide Compliance Officer, executive management, or any employed external auditors in executive session to discuss any matters that the Committee or the before named believe should be discussed privately with the Committee, to the extent permitted by applicable law.

25. The Committee shall review and update the Audit, Compliance, and Management Review Committee Responsibilities Checklist annually.

3. U. T. System: Amendment of the Regents' Rules and Regulations related to audit and non-audit services provided by external audit firms

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Interim Vice Chancellor and General Counsel, the Chief Audit Executive and the Associate Vice Chancellor - Controller and Chief Budget Officer that the Regents' Rules and Regulations be amended to provide guidance on provision of audit and non-audit services by external audit firms. The rule is presented on Pages 10.1 – 10.4 in the new format for the Regents' Rules and Regulations to be discussed and voted on by the Board of Regents at the November 2004 meeting. (See Item 4 on Page 5.)

BACKGROUND INFORMATION

The proposed amendment to the Regents' Rules and Regulations is a further recommendation of the U. T. System Sarbanes-Oxley Ad Hoc Committee and the Action Plan to Implement the "Spirit" of Sarbanes-Oxley Act of 2002 approved by the Audit, Compliance, and Management Review Committee on November 12, 2003. The amendment would provide further guidance on the approval requirements for the engagement of an external audit firm, provisions related to conflict of interest for U. T. System and the engaged external firm, prohibited non-audit services, and review and approval requirements for non-audit services of the engaged external audit firm.

1. Title

Provision of Audit and Non-Audit Services by External Audit Firms

2. Rule and Regulation

Sec. 1 Audit Services.

1.1 Audit, Compliance, and Management Review Committee's Role. The ACMRC is responsible for contracting with external audit firms for audit services.

1.2 Board Approval. Neither U. T. System nor any of its institutions may engage an external audit firm for audit services unless the contract has been approved by the Board in accordance with Section 3 of Administrative Rule 10501 concerning contracts requiring Board approval.

1.3 Conflict of Interest Provision. Neither U. T. System nor any of its institutions may engage an external audit firm for audit services unless the contract includes an acceptable conflict of interest provision approved by the Vice Chancellor and General Counsel.

1.3.1 Lead Partner Rotation. The lead (or coordinating) audit partner (having primary responsibility for the audit), or the audit partner responsible for reviewing the audit shall not have performed audit services for the institution(s) in each of the five previous fiscal years.

1.3.2 Hiring Restrictions. Neither U. T. System nor any of its institutions may hire a former or current partner, principal, or professional employee in a key position, as defined in the *Code of Professional Conduct* of the American Institute of Certified Public Accountants (AICPA), that would cause a violation of the AICPA *Code of Professional Conduct* or other applicable independence rules, during the year

subsequent to the completion of the audit engagement.

Sec. 2 Prohibited Non-Audit Services. Neither U. T. System nor any of its institutions may engage an external audit firm to provide prohibited non-audit services contemporaneously with the provision of audit services.

Sec. 3 Non-Audit Services.

3.1 ACMRC Review and Approval. If the aggregate amount of fees to be paid to an external audit firm for the performance of non-audit services exceeds five percent of the total amount of fees anticipated to be paid to the external audit firm for the performance of audit services provided during any fiscal year in which non-audit services will be provided, then U. T. System and its institutions may not engage the external audit firm to perform the non-audit services unless the proposed engagement is reviewed and approved by the ACMRC.

3.2 Conflict of Interest Not Permitted. If, upon review of a proposed engagement for non-audit services under Subsection 3.1 of this Series, the ACMRC determines that a conflict of interest exists between the external audit firm's obligations to perform audit services and that firm's anticipated obligations to perform non-audit services contemporaneously with the performance of audit services, then U. T. System and its institutions may not engage the external audit firm to perform the non-audit services.

3. Definitions

ACMRC - For purposes of this series, ACMRC refers to the Audit, Compliance, and Management Review Committee of the Board.

Audit Services - For purposes of this Series, audit services are services provided for the purpose of expressing an opinion on the financial statements of U. T. System or any of its institutions.

External Audit Firm - For purposes of this Series, an external audit firm is a public accounting firm (including its partners, employees and agents) engaged by the Board to provide audit services.

Non-Audit Services - For purposes of this series, any non-audit services (including tax services) that are not listed in the definition of prohibited non-audit services.

Prohibited Non-Audit Services - For purposes of this series, prohibited non-audit services include

a) bookkeeping or other services related to the accounting records or financial statements of U. T. System or any of its institutions;

b) financial information systems design and implementation;

c) appraisal or valuation services, fairness opinions, or contribution-in-kind reports;

d) actuarial services;

e) internal audit outsourcing services;

f) management functions or human resources;

g) broker, dealer, investment adviser, or investment banking services;

h) legal services and expert services unrelated to the audit; and

i) any other service that the Board determines, by rule, is impermissible.

4. Relevant Federal and State Statutes

None

5. Relevant System Policies, Procedures, and Forms

None

6. Who Should Know

Administrators
Internal Audit

7. System Administration Office(s) Responsible for Rule

Office of the Controller
Audit Office

8. Dates Approved or Amended

Month xx, 20xx

9. Date Rule Last Reviewed

Month xx, 20xx

10. Contact Information

Questions or comments regarding this rule should be directed to:

- bor@utsystem.edu

4. U. T. Board of Regents: Approval of proposed appointment of a member to the Audit and Ethics Committee of The University of Texas Investment Management Company (UTIMCO)

RECOMMENDATION

The University of Texas Investment Management Company (UTIMCO) Chairman Hunt recommends that the U. T. Board of Regents approve the appointment of Mr. John W. Barnhill, Jr., to the Audit and Ethics Committee of the UTIMCO Board of Directors.

BACKGROUND INFORMATION

Section 66.08 of the Texas Education Code requires that the U. T. Board of Regents approve the appointment of members of the Audit and Ethics Committee of the Board of Directors of UTIMCO. On December 19, 2003, the Board of Regents appointed Mr. I. Craig Hester, Mr. James R. Huffines, and Mr. R. H. (Steve) Stevens, Jr., to the Audit and Ethics Committee of the UTIMCO Board of Directors. Mr. Barnhill was appointed to the Board of Directors of UTIMCO on July 16, 2004.

5. U. T. Board of Regents: Report on the results of The University of Texas Investment Management Company (UTIMCO) Audit

REPORT

Mr. Ricky Richter, Ernst & Young, LLP will report on the results of the audit of the financial statements of the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, and Short Intermediate Term Fund.

On July 7, 2003, the Board authorized U. T. System staff to negotiate and enter into an auditing services contract with Ernst & Young, LLP to perform a financial audit of the funds managed by The University of Texas Investment Management Company (UTIMCO) for the fiscal year ending August 31, 2003. The contract was for one year with a right to renew in one-year increments for four years. The Board renewed the auditing services contract with Ernst & Young, LLP, to perform the 2004 financial audit of the funds managed by UTIMCO on February 4, 2004. The Board is required by Section 66.08 of the Texas Education Code to have an annual audit of the financial statements of the Permanent University Fund.

Ernst & Young is completing field work for this audit as the Agenda materials are being prepared and does not have a written report or summary of findings available at this time. The findings will be discussed with the Audit, Compliance, and Management Review Committee, and the written report will be provided as soon as it is available.

6. U. T. System: Report on the status of the Sarbanes-Oxley Initiative, including the hiring of the independent audit firm for the 2005 U. T. System Financial Statements Audit, and the Governor's Fraud Initiative

REPORT

Mr. Charles Chaffin, Chief Audit Executive, Mr. Randy Wallace, Associate Vice Chancellor - Controller and Chief Budget Officer, and Dr. Scott Kelley, Executive Vice Chancellor for Business Affairs, will update the Audit, Compliance, and Management Review Committee on the status of the initiative and the Action Plan to Implement the "Spirit" of the Sarbanes-Oxley Act of 2002, including the hiring of Deloitte to provide independent financial auditing services for the audit of the U. T. System financial statements for the fiscal year ending August 31, 2005.

In addition, Mr. Chaffin and Dr. Kelley will brief the Committee on the Governor's initiative to identify and prevent fraud, waste, and abuse in state government, including higher education.

Mr. Rodney Lenfant, Ms. Julia Petty, and Ms. Michele Strain from Deloitte will then report on the firm's plans for conducting the 2005 audit, including methodology, staffing, training, and associated timelines.

BACKGROUND INFORMATION

In November 2003, the U. T. Board of Regents approved an initiative to implement the "spirit" of the Sarbanes-Oxley Act as a good faith effort toward manifesting financial accountability and compliance in the public sector. As a result, in June 2004, the Board of Regents sought proposals for a comprehensive annual financial statement audit by an independent certified public accounting firm to obtain assurance that U. T. System has a sound financial base and adequate resources to support the mission of the organization and the scope of its programs and services.

A Request for Qualifications (RFQ) was distributed by U. T. System on June 3, 2004. A pre-proposal conference was held on June 9, with the following five firms participating: Deloitte, Ernst & Young, KPMG, McConnell Jones Lanier & Murphy, and PricewaterhouseCoopers. Written proposals were received from Deloitte and KPMG on June 30. Oral presentations and firm interviews were held on July 13 to allow the Regents an opportunity to further evaluate the firms.

Details regarding the RFQ process and the evaluation of firms were presented at the Board of Regents' meeting held on July 16. Regent Estrada, on behalf of the Audit, Compliance, and Management Review Committee, recommended that Deloitte be selected to provide independent financial auditing services for the audit of the U. T.

System financial statements for the fiscal year ending August 31, 2005. The Board approved the selection of Deloitte and granted approval for U. T. staff to negotiate and enter into an auditing contract with the selected firm. The contract will terminate on April 1, 2006. The contract will give U. T. System an option to renew for two additional one-year terms.

On July 12, 2004, Governor Rick Perry issued Executive Order RP36 calling for state agencies to develop and implement programs to detect and eliminate fraud in government programs. The Governor's Order directs state agencies to develop anti-fraud measures and report those efforts to his office by October 1, designate a staff member to implement fraud prevention and fraud elimination activities, and identify policy and organizational changes and provide legislative recommendations to improve fraud detection and prosecution efforts. The U. T. System is currently in the process of implementing the Order.

7. U. T. System: Report on compliance high-risk area activity regarding U. T. System's response to time and effort compliance issues

REPORT

The Office of the Inspector General of the Department of Health and Human Services regularly conducts compliance audits of higher education institutions, some of which have emphasized time and effort reporting on federal grants provided by the National Institutes of Health. In several recent cases involving non-U. T. institutions, universities have reached settlement agreements and repaid millions of dollars to the federal government.

Dr. Kenneth Shine, Executive Vice Chancellor for Health Affairs, will report on U. T. System's activities in response to federal time and effort compliance issues.

8. U. T. System: Report on System-wide Internal Audit Activities

REPORT

Mr. Charles Chaffin, Chief Audit Executive, and Ms. Kimberly Hagara, Assistant Director for System-wide Compliance, will report on System-wide audit activity for Fiscal Year 2004, including the status of significant audit recommendations.

The fourth quarter activity report on the Status of Outstanding Significant Recommendations is set forth on Pages 14.1 – 14.4. Additionally, a list of other audit reports that have been issued by the System-wide audit program and the State Auditor's Office follows on Page 14.5.

Significant audit findings/recommendations are submitted to and tracked by the System Audit Office. Quarterly, the chief business officers are asked for the status of implementation, and the internal audit directors verify implementation. A summary report is provided to the Audit, Compliance, and Management Review Committee of the U. T. Board of Regents. Additionally, the Committee members receive a detailed summary of "new" significant recommendations quarterly.

Mr. Chaffin will present a recently established protocol for notifying institutional management of any significant findings or other issues prior to reporting to this Committee. This process is intended to ensure that institutional management is aware of such issues and is allowed an adequate opportunity for discussion and comments. A description of the new protocol is set forth on Page 14.6.

Mr. Chaffin will also report on the System-wide Internal Audit Strategic Plan, as set forth on Pages 14.7 – 14.9. The plan is the result of collaboration among institutional audit directors and the System Audit Office and includes objectives, strategies, and performance measures to address six primary initiatives for Fiscal Year 2005.

THE UNIVERSITY OF TEXAS SYSTEM
Status of Outstanding Significant Recommendations

			3rd Quarter		4th Quarter				Ranking Significance
Report Date	Institution	Audit	Ranking	# of Significant Findings	Ranking	# of Significant Findings	Targeted Implementation Date	Overall Progress Towards Completion (Note 1)	Material to Component's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")
1998-07	UTHSC-H	Federal Contracts & Grants Review		1		1	11/30/2004	Satisfactory	C
2000-04	UTHSC-H	Medical Service Research & Development Plan Summary of Operations Review		1		1	11/30/2004	Satisfactory	C
2001-04	UTPA	Internet Security		1		1	12/31/2004	Satisfactory	O
2001-08	UTMDACC	Lotus Notes Environment		2		2	4/1/2005	Satisfactory	O
2001-10	UTHSC-SA	Information Security		1		0	9/1/2004	Completed	C, O
2001-10	UTMDACC	Disaster Recovery/Business Continuity Planning		1		1	6/30/2004	Satisfactory	O
2001-11	UTT	Information Technology General Security Review		2		1	3/1/2005	Satisfactory	O
2002-02	UTHSC-H	Environmental & Physical Safety Compliance Program Review		1		0	8/31/2004	Completed	C
2002-04	UTB	General Controls Audit of Information Technology		1		1	12/31/2004	Satisfactory	O
2002-05	UTA	Network Support Audit		1		1	1/1/2005	Satisfactory	O
2002-05	UTSYS ADM	Office of Information Resources Follow-up		1		1	11/1/2004	Satisfactory	O
2002-07	UTHSC-H	Healthcare Billing Compliance Review		1		1	11/30/2004	Satisfactory	F, C
2002-08	UTHSC-SA	Institutional Compliance Program		2		2	2/28/2005	Satisfactory	C
2002-08	UTSYS ADM	Travel and Entertainment Expenditures		1		1	11/30/2004	Satisfactory	O, C
2002-09	UT Austin	Travel		1		0	6/30/2004	Completed	O, C
2002-10	UT Austin	Unit Heads		1		0	6/30/2004	Completed	O, C
2002-10	UTSYS ADM	UTHC-Tyler Clinical Trials		1		1	2/1/2005	Satisfactory	O, F
2002-11	UTMDACC	Temporary Personnel		1		1	9/28/2004	Satisfactory	O
2003-03	UTPA	General Controls		5		5	12/31/2004	Satisfactory	O
2003-05	UTMB Galveston	Delivery of Operating Room Services		2		2	11/30/2004	Satisfactory	O
2003-06	UTA	Internal Audit Office Peer Review		1		1	9/30/2004	Satisfactory	C,O
2003-06	UT Austin	University Data Center		1		1	12/31/2004	Satisfactory	O
2003-06	UTD	General Controls		2		1	12/31/2004	Satisfactory	C,O
2003-07	UTMDACC	Payroll Operations		1		1	6/1/2004	Satisfactory	O

Information Received from Internal Audit Directors and Chief Business Officers
Consolidated by: System Audit Office
September 2004

THE UNIVERSITY OF TEXAS SYSTEM
Status of Outstanding Significant Recommendations

			3rd Quarter		4th Quarter				Ranking Significance
Report Date	Institution	Audit	Ranking	# of Significant Findings	Ranking	# of Significant Findings	Targeted Implementation Date	Overall Progress Towards Completion (Note 1)	Material to Component's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")
2003-08	UTPA	Center for International Programs		1		1	9/30/2004	Satisfactory	F, C
2003-08	UTMB Galveston	Pharmacy Costs of Goods Sold Review		1		1	12/31/2004	Satisfactory	O, F
2003-08	UTMB Galveston	School of Medicine Office of Student Affairs		2		1	9/30/2004	Satisfactory	C, O
2003-09	UTB	Lab Safety		2		2	9/30/2004	Satisfactory	O
2003-09	UTHSC-H	Quality Assessment of The Office of Auditing and Advisory Services		8		8	8/31/2005	Satisfactory	C, O
2003-09	UTHC-T	Medical Services, Research and Development Plan AFR		1		1	8/31/2007	Satisfactory	O, F
2003-09	UTHC-T	General Information Technology Controls		5		0	7/31/2004	Completed	O
2003-09	UTSYS ADM	System Available Balances		1		1	10/31/2004	Satisfactory	F
2003-11	UT Austin	Harry Ransom Humanities Research Center		1		1	9/30/2004	Satisfactory	F
2003-11	UTSA	Research Development		1		1	12/1/2004	Satisfactory	O
2003-11	UTMDACC	Pharmacy Charge Capture		2		1	7/31/2004	Satisfactory	O
2003-12	UTD	Lab and Biological Safety		1		1	10/8/2004	Satisfactory	C, O
2003-12	UTPB	AFR FYE 8/31/03		1		1	9/30/2004	Satisfactory	F
2004-01	UTEP	Information Technology - General Controls Review		2		2	12/31/2004	Satisfactory	O
2004-01	UTSA	Lab Safety		2		2	1/1/2005	Satisfactory	C, O
2004-01	UTMDACC	PeopleSoft Payroll		1		1	8/31/2005	Satisfactory	O
2004-01	UTMDACC	2003 Mainframe Disaster Recovery Test		1		1	12/1/2004	Satisfactory	O
2004-02	UT Austin	Compliance Inspection: Account Reconciliation and Segregation of Duties		3		3	11/30/2004	Satisfactory	C
2004-02	UTMB Galveston	Compliance Inspection: Account Reconciliation and Segregation of Duties		3		2	12/31/2004	Satisfactory	F, O
2004-02	UTHSC-SA	MSRDP Front-End Billing		3		3	8/31/2005	Satisfactory	O
2004-02	UTMDACC	Compliance Inspection: Account Reconciliation and Segregation of Duties		1		1	9/1/2004	Satisfactory	F, C

Information Received from Internal Audit Directors and Chief Business Officers
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THE UNIVERSITY OF TEXAS SYSTEM
Status of Outstanding Significant Recommendations

			3rd Quarter		4th Quarter				Ranking Significance
Report Date	Institution	Audit	Ranking	# of Significant Findings	Ranking	# of Significant Findings	Targeted Implementation Date	Overall Progress Towards Completion (Note 1)	Material to Component's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")
2004-02	UTHC-T	Inventories Audit FY 2003		2		1	10/31/2004	Satisfactory	F, O
2004-03	UT Austin	Information Security Management		2		2	8/31/2005	Satisfactory	C, O
2004-03	UTB	Contracts and Grants		1		1	12/1/2004	Satisfactory	C, O
2004-03	UTD	Key Shop		1		0	12/31/2004	Completed	C, O
2004-03	UTPA	Accounts Receivable and Allowance for Bad Debts		2		2	11/30/2004	Satisfactory	C
2004-03	UTSA	Information Technology Organization and Planning Controls		2		2	4/30/2005	Satisfactory	F, O
2004-04	UTA	Tuition and Fees		1		0	11/1/2004	Completed	O
2004-04	UTPA	External Quality Assurance Review		3		0	6/30/2004	Completed	O
2004-04	UTHC-T	Capital Assets FYE 8/31/03		2		2	8/31/2005	Satisfactory	C, O
2004-04	UTHC-T	Discretionary Funds		2		2	8/31/2005	Satisfactory	F, O
2004-05	UTA	Office of Research - Grants/Contracts				1	11/30/2004	Satisfactory	C
2004-05	UTD	Time and Effort Reporting				1	12/31/2004	Satisfactory	C
2004-06	UTB	Financial and Applications Controls Audit of the Financial Aid Office				1	5/31/2005	Satisfactory	C, O
2004-06	UTHC-T	Surgical Services				3	11/30/2004	Satisfactory	F, C, O
2004-07	UTEP	Facility Services				1	1/31/2005	Satisfactory	O
2004-07	UT Southwestern	Construction Management				1	11/30/2004	Satisfactory	C, O
2004-07	UTMB Galveston	Basic and Clinical Research Management (BACRM) & Contracts and Grants (C & G)				8	4/30/2005	Satisfactory	F, C, O
2004-07	UTMB Galveston	Post Implementation Review - Clinical Cash Collections Process				0	7/31/2004	Completed	C, O
2004-07	UTHSC-H	Gulf States Hemophilia and Thrombophila Center				0	8/31/2004	Completed	C
		Totals		94		90			

14.3

Information Received from Internal Audit Directors and Chief Business Officers
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September 2004

THE UNIVERSITY OF TEXAS SYSTEM
Status of Outstanding Significant Recommendations

			3rd Quarter		4th Quarter				Ranking Significance
Report Date	Institution	Audit	Ranking	# of Significant Findings	Ranking	# of Significant Findings	Targeted Implementation Date	Overall Progress Towards Completion (Note 1)	Material to Component's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")
STATE AUDITOR'S OFFICE AUDITS									
2002-05	UTMDACC	Statewide Single Audit report for Year Ended August 31, 2001		1		1	8/31/2004	Satisfactory	n/a
2002-09	UTB	A Financial Review		1		1	12/31/2004	Satisfactory	n/a
2002-11	UTMB	Security Over Electronic Protected Health Information at Selected Texas Academic Medical		2		1	4/20/2005	Satisfactory	n/a
2002-11	UTMDACC	Security Over Electronic Protected Health Information at Selected Texas Academic Medical		3		3	7/1/2005	Satisfactory	n/a
2003-02	UT Austin	Statewide Audit FYE 8/31/02		2		2	8/31/2005	Satisfactory	n/a
2004-02	UTSA	Financial Review		3		3	12/31/2004	Satisfactory	n/a
2004-03	UT Austin	Statewide Audit FYE 8/31/03		3		1	12/31/2004	Satisfactory	n/a
2004-03	UT Southwestern	Statewide Audit FYE 8/31/03		1		0	5/31/2004	Completed	n/a
2004-06	UT Austin	Protection of Research Data at Higher Education Institutions				3	12/31/2005	Satisfactory	n/a
2004-06	UT Southwestern	Protection of Research Data at Higher Education Institutions				3	12/31/2005	Satisfactory	n/a
2004-06	UTHSC-SA	Protection of Research Data at Higher Education Institutions				3	4/30/2005	Satisfactory	n/a
2004-06	UTSYS ADM	Protection of Research Data at Higher Education Institutions				3	4/30/2005	-	n/a
		Totals		16		24			

n/a - State Auditor's Office recommendations are significant by definition.

Color Legend:

Any audit with institutionally significant findings. Not necessarily a failure - just an area that needs high level attention. Corrective action will be taken subsequent to the quarter in which the finding was reported.

Significant progress has been made during the quarter the significant finding was reported.

A red audit becomes a yellow when significant progress has been made.

All issues were appropriately resolved during the quarter the significant finding was reported.

All issues have been appropriately resolved.

Note: ***Completed*** - The component Internal Audit Director deems the significant issues have been appropriately addressed and resolved.
Satisfactory - The component Internal Audit Director believes that the significant issues are in the process of being addressed in a timely and appropriate fashion.
Unsatisfactory - The component Internal Audit Director does not feel that the significant issues are being addressed in a timely and appropriate fashion.

Information Received from Internal Audit Directors and Chief Business Officers
Consolidated by: System Audit Office
September 2004

*** OTHER U. T. SYSTEM AUDITS COMPLETED - 6/2004 through 8/2004**

Month Received by System	Institution	Audit
2004-06	UTHC Tyler	Critical Services Departmental Audit
2004-06	UTHC Tyler	Payroll Audit
2004-06	UT System Admin	Employee Group Insurance Financial & Information Technology
2004-06	UT System Admin	UT San Antonio NCAA Agreed-Upon Procedures FYE 8/31/03
2004-07	UT Austin	Retail Cash Operations: Campus Club
2004-07	UT Austin	Retail Cash Operations: Division of Housing & Food Services
2004-07	UT Dallas	Accounts Receivables and Allowance for Doubtful Accounts
2004-07	UT Dallas	Tuition and Fees Revenues
2004-07	UT Pan American	College of Science and Engineering Dean's Office
2004-07	UT Pan American	State Appropriations
2004-07	UT Pan American	Workmen's Compensation Insurance Resource Allocation Procedures
2004-07	UT System Admin	UT Arlington NCAA FYE 8/31/03
2004-08	UT Arlington	Department of History Departmental Review
2004-08	UT Arlington	Endowments
2004-08	UT Arlington	NCAA Recruiting Compliance Audit
2004-08	UT Arlington	Payroll Services
2004-08	UT Austin	Texas Box Office / Paciolan Ticketing System
2004-08	UT Austin	Parking and Transportation Services
2004-08	UT Austin	Office of Resource Development
2004-08	UT Brownsville	Purchasing Office - Change in Management
2004-08	UT Dallas	ATP/ARP Grants
2004-08	UT Dallas	Equal Employment Opportunity
2004-08	UT Permian Basin	Endowment Compliance
2004-08	UT Permian Basin	Office of Accounting - Change in Management
2004-08	UT Southwestern	Inspection of Current Time and Effort Compliance Activities
2004-08	UTMB - Galveston	Annual Financial Reports of Coordinating Board
2004-08	UTMB - Galveston	ARP/ATP Grants
2004-08	UTMB - Galveston	Educational Affairs Decentralized Information Technology Operations
2004-08	UTMB - Galveston	Faculty Group Practice Financial Services - Credit Balances
2004-08	UTMB - Galveston	HealthCare Systems Clinical Staffing Office
2004-08	UTMB - Galveston	Hospital Patient Financial Services Credit Balances
2004-08	UTMB - Galveston	Internal Medicine Comprehensive System Operations
2004-08	UTMB - Galveston	Research Time and Effort Reporting System
2004-08	UTMB - Galveston	Surgery Decentralized Information Technology Operations
2004-08	UTMB - Galveston	Telecommunications Service Center
2004-08	UT System Admin	Backup and Recovery System Admin Electronic Data Hosted at UT Austin
2004-08	UT System Admin	Educational System Alignment Grants Consulting
2004-08	UT System Admin	Follow-Up of the Post Payment Audit Report from the Office of the Comptroller
2004-08	UT System Admin	Compliance Audit - Office of Finance

*** STATE AUDITOR'S OFFICE AUDITS COMPLETED - 6/2004 through 8/2004**

Report Issuance Date	Institution	Audit
2004-06	UT Austin	Protection of Research Data at Higher Education Institutions
2004-06	UT Southwestern	Protection of Research Data at Higher Education Institutions
2004-06	UTHSC San Antonio	Protection of Research Data at Higher Education Institutions
2004-06	UT System Admin	Protection of Research Data at Higher Education Institutions

AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW COMMITTEE

Significant Findings Tracking System

Process for Adding Significant Findings Not Reported by Individual Institutions and Other Uses of Color Coded Reporting

"Significant" audit findings are defined in Business Procedure Memorandum #18 as reportable audit findings or recommendations considered significant at the institutional level by the component internal audit committee or their designee. The UT System Audit Office is responsible for providing oversight of Internal Audit activities at component institutions and for ensuring a timely audit response to significant System-wide risks.

Significant Findings Not Reported by Individual Institutions

Periodically, significant findings are included in the tracking system based on identification and response to system-wide risks by the System Audit Office. These include audit findings that may not initially be considered significant by an individual institution, but may have system-wide significance based on events transpiring at other institutions within or outside of the UT System. Significant findings may also be added based on the results of special audits initiated by the Director of the System Audit Office in response to critical, high-visibility internal control events that present an immediate, system-wide risk concern (i.e. publicity related to the 2003 fraud scheme at the University of North Texas). Special system-wide audits of high-risk areas are designed to provide assurance to the UT Board of Regents and executive management that an appropriate system of internal controls is in place at each institution to minimize a significant recognized risk.

Other Uses of Color Coded Reporting

The color coded reporting format used in the Significant Findings Tracking System may also be used to report issues to the Audit, Compliance, and Management Review Committee (ACMRC), where a clearly defined color coded chart illustrates the component status on an issue.

Notification Process

Prior to including findings in the Significant Findings Tracking System that were not initially reported as significant by an individual institution, the System Audit Office will notify the institution President, Chief Business Officer, and Internal Audit Director of its intent to do so and allow a two-week period for discussion and comments.

Prior to using the color coded reporting format to report an issue to the ACMRC, the System Audit Office will notify all Presidents, Chief Business Officers, and Internal Audit Directors of its intent to do so and the color code for the component to allow a two-week period for discussion and comments.

The University of Texas System-wide Internal Audit Strategic Plan for 2005

System-wide Internal Audit Mission Statement

The mission of the System-wide Internal Audit function is to assist the Board of Regents and executive management in accomplishing their goals by providing assurance and consulting activities to evaluate and improve the processes of risk management, control, and governance across The University of Texas System.

The University of Texas System-wide Internal Audit Strategic Plan is intended to articulate the broad framework, direction, and priorities of the System-wide audit function, and to support the mission of The University of Texas System, through the following strategic initiatives:

I. Adequate and Sustained Resources
II. Anticipation of and Response to Risk
III. Effective Communication and Reporting
IV. Collaboration and Partnerships
V. Compliance with Standards and Requirements
VI. Completion of Plan of Work

Strategic Initiatives:

I. Adequate and Sustained Resources

Objective: *To provide a professional, well-trained, and motivated team, at an appropriate level, for the benefit of The University of Texas System in the delivery of audit services.*

Strategies:

1. Expand collaboration in recruiting, selecting, and hiring highly qualified professionals; develop a System-wide Recruiting Program and Recruiter Training.
2. Establish processes to enhance career development and retain competent audit professionals; develop a System-wide Training Program.

Performance Measures:

1. Overall evaluation of “Exceeds Expectations” on an annual survey of executive officers and Board members.
2. Overall positive score on customer feedback surveys regarding quality of work performed for all engagements.
3. Overall positive score on annual survey of audit personnel regarding career development and job satisfaction.
4. Overall positive score on annual survey of UT component audit directors regarding value-added recruiting and training activities.

II. Anticipation of and Response to Risk

Objective: To become and remain informed and aware of the risks in all environments that affect The University of Texas System and to develop a plan of work that addresses those risks.

Strategies:

1. Risk Identification - Identify potential risks that may affect UT System's ability to successfully implement its strategy and achieve its objectives, including known risks that have changed in magnitude, impact, or both.
2. Risk Assessment - Consider how potential risks might affect the achievement of UT System objectives.
3. Risk Response - Identify and evaluate appropriate risk response options, communicate them to management, and incorporate appropriate response activities into the plan of work.

Performance Measures:

1. Effective identification, evaluation, and communication of at least three previously unknown or unrecognized System-wide risks annually.
2. Effective identification, evaluation, and communication of risk response options for newly identified risks, including options to address known risks that have changed in magnitude, impact, or both.

III. Effective Communication and Reporting

Objective: *To provide a framework and process by which information can be exchanged and ideas expressed effectively amongst internal audit functions and between the System-wide internal audit function and the ACMRC.*

Strategies:

1. Quarterly Internal Audit Council Meetings.
2. Internal Audit directors communicate with liaisons on a semi-weekly basis via Liaison Reports.
3. Monthly teleconference calls between all internal audit functions.
4. Quarterly newsletter published.
5. Roundtable discussions amongst internal audit staff (seniors, etc.) to facilitate knowledge sharing on current events, audit approaches, and best practices.
6. Communication between System-wide Internal Audit function and ACMRC.

Performance Measures:

1. Overall evaluation of "Exceeds Expectations" on an annual survey of executive officers and Board members regarding effectiveness of communication tools and processes.
2. Overall positive score on annual survey of system-wide internal audit personnel regarding effectiveness of communication tools and processes.

IV. Collaboration and Partnerships

Objective: *To foster an environment that facilitates open communication and develops relationships amongst the component internal audit functions to ensure accomplishment of the goals and objectives System-wide.*

Strategies:

1. Identify, during the annual audit planning process, those areas where collaboration opportunities exist and incorporate them into the System-wide audit plan.
2. Collaborate on the development of the System-wide Annual Audit Plan.
3. Coordinate activities with external reviewers to maximize coverage of institutional risks and minimize duplication of efforts.

Performance Measures:

1. Participation in at least 2 System-wide collaborative projects annually by each component audit office.
2. Completion of at least 2 System-wide collaborative projects annually by the overall System-wide audit function.
3. Overall positive score on annual survey of System-wide internal audit personnel regarding value-added collaborative activities.

V. Compliance with Standards and Requirements

Objective: *To ensure University of Texas System internal auditing activities are conducted in accordance with relevant professional standards and other internal and external requirements.*

Strategies:

1. Maintain an internal audit charter that formally defines the internal audit activity's purpose, authority, and responsibilities.
2. Maintain an active quality assurance program in every U. T. audit office to ensure appropriate operations.
3. Ensure compliance with governance and external documents, such as IIA Standards and Audit Committee charters.

Performance Measures:

1. Quality Assurance Reviews completed on 100% of engagements.
2. All internal audit departments conduct a self-review at least every 3 years.
3. All internal audit departments that undergo external peer reviews receive a "Conforms to IIA Standards" opinion from external quality assurance review team at least every 3 years.

VI. Completion of Plan of Work

Objective: *To accomplish activities outlined in the approved plan of work, developed through risk assessment to add value and improve operations.*

Strategies:

1. Perform risk-based assurance and consulting activities.
2. Report results of work to management in a timely manner.
3. Monitor accomplishment of plan of work.

Performance Measures:

1. At least 85% of the approved Plan of Work accomplished annually.
2. Reports or memorandums issued on average within 45 days of completion of work.

9. U. T. System: Annual Report on System-wide Institutional Compliance Program

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, and Ms. Kimberly Hagara, Assistant Director for System-wide Compliance, will brief the Audit, Compliance, and Management Review Committee on the annual report of the System-wide Compliance Program, as set forth on Pages 15.1 – 15.4. Activity reports are presented to the Audit, Compliance, and Management Review Committee of the Board of Regents on a quarterly basis.

Next, Mr. Chaffin will report on the overall number and types of compliance "hotline" calls that have been received System-wide during Fiscal Year 2004.

Mr. Chaffin and Ms. Hagara will then brief the Committee on the status of the Compliance Program Peer Review process. A schedule of component peer reviews is set forth on Page 15.5.

The University of Texas System
Institutional Compliance Program
Annual Report Summary
Fiscal Year Ended August 31, 2004

Program Executive Summary

The University of Texas System Institutional Compliance Program was established to ensure that the entire U. T. System (including its 15 institutions, System Administration, and UTIMCO) operates in compliance with all applicable laws, policies and regulations governing higher education institutions. In order to achieve this assurance, the institutional compliance offices at System Administration and each institution:

- Perform annual compliance risk assessments;
- Provide campus-wide compliance training and promote compliance awareness;
- Provide specialized training for high-risk compliance areas;
- Continuously monitor and inspect the institution's high-risk compliance activities;
- Manage the institution's confidential reporting mechanisms (hotline, etc.);
- Report compliance activities and significant compliance issues to executive management;
- Actively engage an Institutional Compliance Committee that meets at least quarterly

The System-wide Compliance Officer, Mr. Charles Chaffin, is responsible for apprising the Chancellor and Board of Regents of the status and activities of the institutional compliance function. Overall, approximately **98** employees system-wide provide direct support to the Institutional Compliance Program.

System-wide Program Activity

The System-wide Compliance Office provided oversight and support to the Institutional Compliance Program during the 2004 fiscal year through the following activities:

- **Developed a Compliance Program Peer Review Process and coordinated institutional compliance program peer reviews** for System Administration and 8 of 15 campuses**.** The System-wide Compliance Office developed a peer review guide, standard engagement agreements and report formats, helped identify best practices, identified team members, coordinated preparatory review activities, and facilitated team meetings. Institutions receiving peer reviews in 2004 were:

U. T. Dallas	U. T. El Paso	U. T. San Antonio
U. T. Pan American	U. T. HSC Houston	U. T. System Administration
U. T. Tyler	U. T. HSC San Antonio	U. T. HC Tyler

  All remaining institutions will receive peer reviews during the 2005 fiscal year. Benefits of the peer reviews have included the identification and sharing of best practices, improved identification and monitoring of compliance activities, an enhanced sense of community and synergy between U. T. institutions, clarification of compliance roles and responsibilities, and identification of next steps for improving individual institutional programs.

- **Hosted a national conference on "The Sarbanes-Oxley Act and Higher Education"** in October 2003 which was attended by over 160 business officers, audit directors, and compliance and legal professionals.

- **Hosted a national conference on "Enterprise Risk: Building a Culture of Ethics and Compliance"** in April 2004 with over 175 participants representing more than 60 institutions of higher education. The focus of the conference included compliance program fundamentals, research and high-risk area compliance, and enterprise risk management (ERM).

- **Assisted in the development of a non-retaliation ("whistleblower") policy for U. T. System.** *Business Procedures Memorandum 67 – Protection from Retaliation for Reporting Wrongdoing* was implemented in May 2004.

- **Collaborated with the System Administration Compliance Office to negotiate a system-wide contract with The Network, Inc.,** to provide third party compliance hotline services for all institutions. The contract resulted in cost savings to the U. T. System of $20,000 or 30% over the combined prior institutional contracts.

- **Coordinated and hosted Compliance Officer Meetings** in October 2003 and March 2004, as well as a teleconference in June 2004. Agenda topics included Sarbanes-Oxley, hotline procedures, compliance peer reviews, time and effort reporting, HIPAA and privacy issues, and accountability.

- **Facilitated and participated in meetings of the High-risk Working Groups**, including Conflict of Interest, Environmental Health & Safety (EH&S), Health Insurance Portability and Accountability Act (HIPAA), Information Technology, Medical Billing, and Endowment Compliance.

- **Actively participated in monthly meetings (via conference call) of the University Compliance Group** and hosted a face-to-face meeting with this group in Austin in conjunction with the April Compliance Conference. The UCG is comprised of compliance representatives from large research institutions, including Duke, Minnesota, UCLA, Michigan, Stanford, and Harvard.

- **Made presentations on the U. T. System Institutional Compliance Program and maintained a national presence** through professional organizations such as the National Council of University Research Administrators, the Council on Governmental Relations Meeting, the National Association of State Universities and Land Grant Colleges, the Open Compliance & Ethics Group, and the Association of College and University Auditors.

Institutional Program Activity[1]

Risk Assessment and Monitoring Activities
Common significant institutional risk areas the Institutional Compliance Offices focused on during FY 2004 included:

- **Asset Management** - safeguarding of physical and financial assets
- **Clinical Billing** - medical billing that is not appropriately documented and coded
- **Endowments** - adherence to terms of endowment agreement
- **Environmental Health & Safety** - proper use and handling of dangerous materials, lab safety, and fire safety
- **Human Resources** - adherence to applicable rules, regulations and laws including equal opportunity/affirmative action, leave administration, and fair hiring practices
- **Information Resources/Security** - systems integrity/continuity/availability, security regulations, and external access
- **Intercollegiate Athletics** - adherence to the rules and regulations of the NCAA
- **Research** - research not conducted in accordance with approved protocol or federal regulations
- **Contract Administration / Effort Reporting** - improper effort reporting on federal grants, unallowable costs
- **Privacy (HIPAA, FERPA, Graham-Leach-Bliley) –** improper disclosure of private/sensitive/protected information

The monitoring activities in place to mitigate these risks include, but are not limited to:

[1] Details regarding activities at the institutional level are published in the *Institutional Compliance Program Annual Report for Fiscal Year 2004*.

- Reporting by parties responsible for each risk area on a quarterly basis
- Ensuring that compliance plans and/or institutional policies and processes are in place to address such risks
- Providing specialized training related to the risks
- Conducting reviews and remediation of high-risk area activities when appropriate

Assurance Activities and Significant Findings
The following types of assurance activities were performed at the institutions during the year:

- **Inspections** – Sampling and observation to ensure that mitigating activities defined in the monitoring plan are being appropriately performed for all high-risk areas.

- **Certifications** – Several institutions require budget authorities to annually assess and certify their compliance with laws, rules, and policies and the existence of sound internal controls in their departments.

- **Audits** – Internal and external audits were performed for high-risk areas based on priority risks, audit cycles, or the perceived readiness of high-risk areas for which compliance plan objectives had been accomplished.

- **Peer Reviews** – External and internal peer reviews were conducted in several high-risk areas, such as Environmental Health and Safety, NCAA, and Contracts and Grants. Peer reviews are conducted by area experts and serve to validate the existence of sound practices and controls within specialized functional areas. In addition, reviews of the overall compliance program infrastructure and activities were completed for 8 of the institutions and System Administration.

Training Activities
General Compliance Training was conducted using a variety of formats including web-based, classroom, and written materials. Approximately **60,000** employees completed training. Additionally, specialized training was conducted for high-risk areas, including: Endowments, Environmental Health & Safety, HIPAA, Human Resources, Intercollegiate Athletics, Research Administration, SSN Privacy, Medical Billing, Account Reconciliation, Effort Reporting, Clinical Documentation, and Human Subjects Protection.

Action Plan Activities
A majority of the Action Plans established by each institution for FY 2004 focused on the following activities: enhancement of General Compliance Training; enhancement of compliance awareness; updating of the compliance risk assessment to include new risks like Effort Reporting; revision of the Standards of Conduct Guide or Compliance Manual; and enhancement of the confidential reporting line tracking system. The majority of items identified in the 2004 Action Plans were completed. The remaining items are in the process of completion at this time.

Other Activities
Many compliance offices also engaged in a number of additional activities at the request of institutional management. These activities included, but are not limited to:

- Coordination of SSN remediation efforts in accordance with *Business Procedures Memorandum 66 – Social Security Number Confidentiality* implementation
- Assistance with Enterprise-wide Risk Assessments
- Oversight of FERPA awareness initiatives
- Coordination of HIPAA privacy compliance and training
- Assistance with internal control assessments related to the Sarbanes-Oxley initiative
- Completion of risk assessments and reporting in conjunction with the Governor's Fraud Initiative
- Time and effort reporting assessments and process improvement initiatives

Confidential Reporting
The institutions have established numerous mechanisms for confidential reporting including: third-party serviced telephone hotlines, anonymous electronic mailboxes, voicemail boxes, and postal mailboxes. The confidential reporting mechanisms are advertised to employees through websites, posters, payroll stuffers, and newsletters. Additionally, reports may be made directly to the Compliance Officer. The reports of suspected instances of non-compliance received in FY 2004 were categorized as follows:

Type	Number	% of Total
Improper Use of University Property & Resources	50	9.8
Human Resources	252	49.2
Healthcare	96	18.8
Research	10	2.0
Policy / Ethics	50	9.8
Safety	2	0.4
Fiscal Reporting/Audit	10	2.0
Miscellaneous	42	8.2
Total	512	100%

Each institution has established an appropriate triage process. Members of the triage teams may include: Compliance Officer, Chief of Police, Director in Internal Audit, Director of Human Resources, Legal Officer, or other members of the Compliance Committee. All confidential reports have been appropriately resolved or are currently under investigation.

The 2004 Annual Summary Report is submitted by:

_____
Charles G. Chaffin, System-wide Compliance Officer

U. T. System-wide Compliance Program
Peer Review Status and Schedule

September 2004

	On-Site Assessment Dates	Institution	Status
1	Dec. 8-9	UT Dallas	Completed
2	Feb. 9-11	UT Pan Am	Completed
3	Feb. 24-26	UTHSC San Antonio (*training review)	Completed*
4	Apr. 6-8	UTHSC Houston	Completed
5	May 5-7	UT El Paso	Completed
6	May 17-19	UT Tyler	Completed
7	May 24-26	UTHC Tyler	Completed
8	Jun. 28-30	UT San Antonio	Completed
9	Jul. 19-21	UT System Administration	Completed
10	October 2004	UT Brownsville	Pending
11	October 2004	UT Southwestern	Pending
12	November 2004	UT Arlington	Pending
13	February 2005	UT Austin	Pending
14	February 2005	UT Permian Basin	Pending
15	Spring 2005	UT MD Anderson (external review)	Pending
16	Spring 2005	UTMB Galveston	Pending
17	Summer 2005	System-wide Compliance Program	Pending
18	TBA	UTIMCO	Pending